Draft

MINUTES OF MEETING

STATE OF WISCONSIN
JOINT INFORMATIONAL MEETING
TEACHERS RETIREMENT, WISCONSIN RETIREMENT,
AND EMPLOYEE TRUST FUNDS BOARDS

Thursday, March 21, 2002

Radisson Inn Madison
517 Grand Canyon Drive
Madison, Wisconsin

BOARD PRESENT:

Wayne McCaffery, Chair, TR and ETF Board
Marilyn Wigdahl, Chair, WR and Chair, ETF Board
Theodore Bauer, WR Board
Ted Bratanow, TR Board
John Brown, ETF and Vice-Chair, WR Board
Sherry Brown, ETF Board
Jefferson Davis, WR Board
Suzanne Doemel, TR Board
Barbara Ermeling, WR Board
James Gruentzel, ETF Board
Laura Iliff, WR Board
Irena Macek, ETF and TR Board
Lon Mishler, TR Board
Robert Niendorf, Secretary, ETF Board and
Vice-Chair, TR Board
Gerald Pahl, TR Board
Vicki Poole *(representing Peter Fox, ETF Board)*
Dennis Pratt, TR Board
Nancy Thompson, ETF and Secretary, TR Board
James Tripp, TR Board
Dorothy Vogel, TR Board

BOARD NOT PRESENT:

Lauri Bickel, TR Board
Steve Frankel, ETF Board
Don Ganther, TR Board
Wayne Koessl, Vice-Chair, ETF Board and TR Board
Cynthia Van Bogaert, ETF Board

PARTICIPATING STAFF:

Eric Stanchfield, Secretary
Dave Mills, Deputy Secretary
Julie Reneau, Administrator, Division of Retirement Services
Pam Henning, Director, Office of Strategic Services
Janet Klosterman, Board Coordinator
Linda Owen, Division of Retirement Services
Shelly Schueller, Office of the Secretary
Rob Weber, Chief Counsel

OTHERS PRESENT:

Sue Chamberlain, UW Systems Administration
Sandy Drew, State of Wisconsin Investment Board
Kendra Eppler, Legislative Audit Bureau
Bill Ford, Legislative Council
Dave Hinrichs, Executive Assistant
Ken Johnson, State of Wisconsin Investment Board
Nancy Ketterhagen, Office of Strategic Services
Jon Kranz, Department of Administration
Patricia Lipton, State of Wisconsin Investment Board
Ron Mensink, State of Wisconsin Investment Boar d
Brian Murphy, Gabriel, Roeder, Smith & Company
Mel Sensenbrenner, State Engineers Association
Anne Spurley, Blumenfeld and Associates
Ken Stelzig, Wisconsin Educators Association Council - Retired
John Vincent, Department of Employment Relations

Marilyn Wigdahl, Chair, Wisconsin Retirement Board and Employee Trust Funds Board called the meeting to order at 9:12 a.m.

Consideration of Minutes of Previous Meetings

MOTION: Mr. Pratt moved approval of the minutes of the September 20 and December 13, 2001 meetings as submitted by the Board Coordinator.

Proposed Administrative Rule - Scope Statement

- **Amendment to Rule Governing Annuitant Dividends**

  Ms. Owen presented a scope statement for a proposed administrative rule that would amend the rule governing annuitant dividends. The primary objective of the proposed amendment is to distribute the annual annuitant dividends one month earlier, so that annuitants would receive the dividend beginning with the April 1 payment rather than on May 1. When the original rule specifying the effective date of annuitant dividends was promulgated, the May 1 effective date now specified in the rule was a realistic date. However, improved automation has made it possible to gather the data needed to calculate the dividend rates and to make the annuity adjustments more quickly. This is desirable both from an equity and customer service perspective.

  The amendment would also make changes related to prorating dividends under ETF 20.25, reducing the minimum percentage by which annuities can be adjusted. This would have the effect of recognizing any year's annuity reserve surpluses more rapidly.

  Ms. Owen announced that she would bring the proposed scope statement to each individual Boards' meeting for further discussion and approval.

Legislative Report

Ms. Henning briefly reviewed the written legislative report included in the agenda material, noting that all of the bills in the document will have to be reintroduced next legislative session.

- **Update of Wisconsin Income Tax Code to Adopt Recent Federal Internal Revenue Code Changes**

  Ms. Henning reported that significant changes to state and local government pension plans resulting from the Economic Growth and Tax Reconciliation Act of 2001 (EGTRRA) cannot occur because legislation bringing Wisconsin statutes governing state income tax into conformance with federal Internal Revenue Code provisions as amended by EGTRRA has not been enacted into state law. These provisions are part of the Wisconsin budget bill.

  The Department is working with the Department of Revenue to determine when state laws might be amended in order to apply the EGTRRA provisions. This affects changes that were planned to begin in January 2002 in both the Wisconsin Retirement System (WRS) and the Wisconsin Deferred Compensation Program (WDC).

  <u>For the WRS, the changes include</u>: 1) the ability to roll over eligible WRS distributions to a Section 457 deferred compensation plan (such as the WDC) or a Section 403(b) tax sheltered annuity plan, and 2) increased contribution and benefit limits.

  <u>For the WDC, the changes include</u>: 1) increased contribution limits, 2) removed the coordination of contributions between Section 403(b) and 457 plans to allow a participant to contribute the maximum contribution to each plan, 3) added flexibility at distributions to cancel payment date and option elections and amend the form of payment once distributions have begun, and 4) the ability to roll over eligible WDC distributions to an individual retirement account, Section 403(b) plan or qualified retirement plan.

- **Budget Adjustment Bill**

  Ms. Henning reported that in March, the Joint Committee on Finance (JCF) and the Assembly acted on the budget adjustment bill. The Senate completed public hearings around the state on March 26 on the Assembly passed version of the budget. The Senate introduced Senate Substitute Amendment 1 that is the budget recommended by the JCF.

  Ms. Henning reviewed the following provisions of the bill that affect the Department of Employee Trust Funds and the benefit programs it administers.

  1. **Annual Accrual of Sick Leave for the Accumulated Sick Leave Conversion Credit Programs**

     Effective January 1, 2003, provide that the maximum annual amount of unused sick leave that state employees may accumulate for purposes of the Accumulated Sick Leave Conversion Credit program and for calculations under the supplemental health insurance credit program would be 97.5 hours per year, rather than the current 130 hours per year.

     Effective January 1, 2003, for faculty and academic staff personnel, provide that the maximum annual amount of unused sick leave that could be accumulated would be 51 hours per year, rather than the current 68 hours per year, for personnel appointed to work 52 weeks and would be 38.4 hours per year, rather than the current 51.2 hours per year, for personnel appointed to work 39 weeks.

     Specify that for state employees included in a collective bargaining agreement, this provision would apply unless otherwise provided in the agreement. Any reduced costs to the state as employer would not be realized until contribution rates for these programs are established for the 2004 calendar year.

2. Suspend State Contribution to Fund Sick Leave Conversion Credit Programs

Suspend state employer payroll contributions for both the Accumulated Sick Leave Conversion Credit program and the Supplemental Health Insurance Conversion Credit program for those payrolls between May 1, 2002 and June 30, 2003.

3. Monthly Payment by State Employees for Group Health Insurance

Effective January 1, 2003, require state employees insured under the state group health insurance program to contribute a minimum of $10 per month for single contract coverage and $20 per month for family contract coverage (and the net-balance of any other employee required contribution) under the current state health insurance premium contribution formula. This provision would be a prohibited subject of bargaining for the state as employer.

4. State Group Health Insurance Premiums for Part-time State Employees

Require for state employees with appointments between 0.50 FTE and 0.74 FTE, who are participants under the WRS, that the state would contribute one-half of the normal state contribution for a full-time employee for state group health insurance coverage beginning January 1, 2003. This provision would be a prohibited subject of bargaining for the state as employer.

5. Elimination of State Contributions to the Income Continuation Insurance Program

Effective July 1, 2002, end state employer contributions to the income continuation insurance program for state employees. Any state employee electing to participate in the program must pay the entire monthly premium amount to maintain coverage. This provision would be a prohibited subject of bargaining for the state as employer.

6. WRS Reporting Requirements for Counties

Changes the date by which counties must file their WRS annual report for employees from January 31 of each year to February 28.

7. Small Business Health Insurance Reform

Incorporates provisions of AB 876 relating to small business health insurance reform including:

- $850,000 general purpose revenue (GPR) loan from the Office of Commissioner of Insurance to fund the operating costs of the Private Employer Health Care Coverage Program (PEHCCP) to be repaid with interest within a reasonable period of time as determined by the Department of Administration (DOA) Secretary and PEHCCP Board;

- Authorize ETF to seek funding from any person for the payment of costs of designing, marketing, and contracting for administrative services of PEHCCP; and

- Require the state to offer state employees a defined contribution plan that allows employees to choose the level of premiums, deductibles and co-payments and to select the hospital and medical benefits under the plan, but only if the Group Insurance Board determines a plan is available in the area and approves the plan.

8. Miscellaneous Budget Management Changes

- Require state agencies to distribute 10% of their printing in 2002-03 electronically.

- Require DOA to identify all printed publications being prepared by executive branch agencies. Prohibit publications from being produced unless deemed essential by the Secretary of DOA or required by the Wisconsin Constitution or by law.

- Eliminate the executive assistant positions in state agencies. (*Note: This does not affect an incumbent in the position currently. If the person leaves the position, the position will then be removed prospectively from the Department.)*

- Require state agencies to report to the DOA Secretary by July 30 of each year, any classified and unclassified position in the agency that became vacant during the preceding fiscal year. The DOA Secretary shall ensure no executive branch agency fills more than 75% of the total number of full-time equivalent (FTE) positions that became vacant during the preceding fiscal year. The funding will lapse back to the funding source from which the position was funded and all unfunded positions will be deleted from the agency's base budget.

- Require state agencies to once every third biennium submit as part of their biennial budget request, a description of each programmatic activity of the agency and an accounting by fund source of expenditures for the prior three fiscal years and the last two quarters of each of the prior three fiscal years.

- Require the Governor to create a program to conduct periodic performance evaluations of the operations of state agencies, to review the statutes and rules affecting the operation of the agency and provide a written report to the Governor and Legislature.

- Require state agencies to utilize government owned facilities that are free of charge to conduct meetings, conferences and seminars for participating government employees.

- **Early Retirement Window Proposals Under Consideration**

Ms. Henning and Ms. Reneau reported that, while there is no formal bill proposal at this time, the Senate Committee on Organization is considering various provisions for a possible early retirement window.

The Committee voted yesterday to approve spending $40,000 on an actuarial analysis of the costs of potential provisions on an early retirement window. They referred members to a letter from the Committee to Norm Jones, Gabriel, Roeder, Smith & Company, which asked for an independent estimate of the projected costs of possible options as they would relate to state and University employees.

The Committee specifically asked the actuaries to cost out all options as an unfunded liability as a percent of payroll and as an approximate flat dollar liability if paid in a lump sum. The Committee also asked the actuaries to note how much would have to be paid in an initial rate to avoid a negative cash flow until a permanent unfunded liability would be created at the close of the window.

The study is expected to be completed within two weeks and will be shared with the Boards as soon as it is available.

The assumptions to be used, the options to be analyzed and additional questions the Committee would like addressed are as follows.

- **Assumptions**

1. All employment categories except elected officials would be eligible to elect window benefits.

2. The earliest retirement age would be reduced by two years for all employment categories. An actuarial reduction of 4.8% per year (.4% per month) would apply to those years.

3. A minimum of ten years of WRS creditable service would be required to be eligible for the window.

4. The window period would run from July 1, 2002 through January 1, 2003 for non-teachers and January 1, 2003 through June 30, 2003 for teachers and University of Wisconsin and Wisconsin Technical College System employees. Employees would need to meet the age and service requirement, terminate employment during the window and take an immediate annuity.

5. Any add-on of creditable service would be credited to the employment category at termination.

6. The retirement benefit costs would be funded by creating a new unfunded liability to be paid over a 25-year period. To avoid a negative cash flow from the Trust Fund, an estimated percent of payroll will be paid immediately - starting at the beginning of the window period. Due to the uncertainty of the numbers actually retiring, this percent of payroll should be provided on the high side. Once the actuarial cost analysis is complete based on actual experience, the rate would be readjusted for the remainder of the amortization period.

7. The sick leave credits in the window benefits would be treated as an add-on to the existing Supplemental Plan and no separate liability funding mechanism would be required.

8. Approximately 6,000 eligible would take advantage of the window. Of those, 25% would be university employees (assume 10% faculty and academic staff and 90% all others) and 75% state employees. Since you are using 2000 data, please project 2001 earnings by using the current WRS salary assumption of 4.5%.

9. Any add-on to a formula annuity would ignore the current formula benefit maximum for those members at maximum.

10. The value of the increase in a formula benefit (generated by increased age or service) would be added to the money purchase benefit amount if higher.

- **Options**

  Option 1 (Five or $40,000): Add five years of creditable service or have $40,000 added in sick leave credits. Assume 20% would take the sick leave credit option.

  Option 2 (Five and $20,000): Add five years of creditable service and have $20,000 added in sick leave credits.

  Option 3 (two plus three and $20,000): Add two years of age to actual age for age reduction purposes and three years of creditable service and add $20,000 in added sick leave credits.

- **Additional Questions**

  1. For each $10,000 of sick leave credits, how much would this add to cost?

  2. For each year of added service, how much would this add to cost?

  3. For each year of added age for age reduction purposes, how much would this add to cost?

  4. If a similar early retirement window, without a sick leave component was offered to all local employers, would the cost approximate what your estimates are for the state and University?

  5. If the formula maximum benefit for Protectives with Social Security is now 65% of Final Average Earnings (FAE) and for Protectives without Social Security the maximum is now 85% of FAE, what would the estimated effect of changing this to 70% and 90% (respectively), be as a percent of payroll. Assume that this change would be permanent and would be a normal cost contribution. Also please take into account that the Department of Employee Trust Funds has estimated that approximately 50% of protectives with 20 or more years of service are projected to receive a money purchase benefit.

Miscellaneous

- **Department of Employee Trust Funds Financial Report**

  Ms. Reneau noted that the Controller's Office presentation on the 2000 and 2001 Financial Report would be rescheduled for the June meeting.

- **Corrected Pages for the 2000 Valuation of Retired Lives**

  Ms. Reneau explained that a problem in the 2000 Valuation of Retiree Lives report had been noted. Since the problem did not affect the liabilities, Mr. Murphy indicated that they were not planning to reissue the full report. Instead he had provided replacement pages 10 and 11, which were distributed to each member prior to the start of the meeting. The corrected pages are included as **Attachment I**.

- **Proposed Benefit Report**

Ms. Schueller presented a draft benefit annuity statistical report for review and comment. This report provided summary information on the retirement benefit annuity, disability benefit annuity, and beneficiary benefit annuity applications approved and terminated by the Boards. It also contained current data on the 1999 Wis. Act 11 benefit adjustment backlog. The report was intended to provide a better understanding of trends in Wisconsin Retirement System (WRS) benefits. In the future, the Department plans to present this information at each meeting in lieu of the individual benefit lists now provided. Ms. Schueller will attend each Board's individual meeting for further discussion and to request Board action to accept the proposed summary format in lieu of the full exhibit lists.

Ms. Schueller explained that there are four parts to this report:

1. The retirement annuity summary section replaces Exhibits A and A-1. It contains the total number of new retirement benefits started on estimates and finalized in each of the past three months, along with a breakdown by option type selected and information on whether the formula benefit or the money purchase benefit yielded a higher annuity. It also contains the total number of benefits at the maximum formula benefit, a breakdown by gender, and retirement annuity termination totals and by type of termination (returned to work or converted to lump sum). Finally, this section includes the gross annuity payments paid out by ETF in the last three months.

2. The disability annuity summary replaces Exhibit B. It contains similar information as the retirement summary, except that it is specific to the disability programs. It has the total number of disability applications by type of disability, by option type selected, and by gender. It includes a breakout of the disability annuity determinations completed in the past three months.

3. The beneficiary annuity summary replaces Exhibits C and C-1. It provides the total number of beneficiary annuity applications started in the past three months. When there are beneficiary annuity terminations in the reporting period, this information will be included here as well.

4. The Act 11 benefit adjustment backlog. This section shows progress on the backlog of manual annuitant dividends, lump sum benefit supplements, pre-July 2001 final estimated annuities and corrections to final calculations generated by Act 11.

Ms. Schueller noted that this first draft includes data that staff was able to extract from the current computer systems. The Department intends to further expand these statistical reports as part of the Benefit Payment System. Additional statistics include an additional breakdown of annuity applications by age in 5-year increments, average years of service, age at the time a benefit is taken, information on death benefits and comparisons of data on a year-to-year basis.

Overall Board members were pleased with the summary report and were open to consideration of the proposed recommendation to authorize staff to approve the benefits and report to the Board in this summary type report.

Several members provided feedback to Ms. Schueller regarding additional information that they would find useful. She encouraged the members to contact her if anything additional comes to mind after the meeting regarding information they would like to see incorporated into this report.

- **Act 11 Implementation Update**

  Ms. Reneau discussed the information in her March 4 memo regarding the backlog of calculations and the variable enrollment system implementation.

- **Benefit Payments System Development Status Report**

  Ms. Reneau reviewed the status report that Mr. Willett of the Controller's Office had provided for the Board's information and responded to questions.

- **Department of Employee Trust Funds Organizational Chart**

  Ms. Reneau noted that an updated organizational chart reflecting the recent changes in the Department structure had been distributed prior to the meeting.

- **Update on Dane County Circuit Court Case No. 01-CV-3142**

  Attorney Weber provided a bullet-point summary regarding the lawsuit filed that challenges DETF's handing of the $200 million employer credit created by 1999 Wis. Act 11, § 27 (1) (b) 1. He noted that, in January, Assistant Attorney General Jane Hamblen, representing the defendants, moved to dismiss the lawsuit. Briefs have been filed and on March 28, 2002, at 1:30 p.m., Judge Moria Krueger, Dane County Circuit Court Branch 7, will hear oral arguments on the Defendants' motion to dismiss.

19th Annual Actuarial Valuations of Retired Lives - December 31, 2001

Brian Murphy, Gabriel, Roeder, Smith & Company presented the *19th Annual Actuarial Valuations of Retired Lives* dated December 31, 2001. He reviewed the highlights of the report and responded to questions.

The results of the valuation may be briefly summarized as follows ($ millions).

Summary *($ millions)*		
	Fixed	**Variable**
Number of Annuitants	112,142	28,314
Annual Amount	$2,048.6	$424.4
Fund Balance	$21,979.7	$3,901.8
Actuarial Reserve	$21,283.6	$4,547.4
Ratio	**1.033**	**0.858**

Based upon these results, effective April 1, 2002, fixed annuities will be increased by 3.3% and variable annuities will be decreased by 14%.

Ms. Reneau noted that she had discussed the proposed dividends with the Board Chair on February 25, 2002 and obtained approval to proceed with departmental processes in order to pay the dividends to benefit recipients on May 1, 2002.

State of Wisconsin Investment Board Update

Three members of the State of Wisconsin Investment Board (SWIB) staff participated in the presentation to the Board members and staff. Patricia Lipton, Executive Director; Ron Mensink, Quantitative Research and Risk Analytics Director and Ken Johnson, Chief Operator Officer, reported on investment performance, alternative investment review, strategic planning and communication surveys and plans.

Adjournment

MOTION: Mr. Davis moved to adjourn. Ms. Vogel seconded the motion, which passed without objection on a voice vote.

The Joint Informational meeting adjourned at 12:06 p.m.

Date Approved: ______________________

Signed: ____________________________
Jefferson Davis, Secretary
Wisconsin Retirement Board